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Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

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| In the Matter of | ) | |
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| Amendment of the Commission's | ) | |
| Rules and Policies to Increase | ) | CC Docket No. 95-115 |
| Subscribership and Usage of the | ) | |
| Public Switched Network | ) | |

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COMMENTS OF AT&T CORP.

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## SUMMARY

In this Notice of Proposed Rulemaking (NPRM) the Commission seeks comment on ways to increase telephone subscribership, particularly among those segments of the American public where subscribership is below the 94 percent nationwide average. AT&T agrees that this high level of subscribership attests to the overall success of the Commission's universal service policies. AT&T also shares the Commission's objective to make service still more readily available, particularly in areas and among groups who have a high incidence of disconnection from the network and who lag behind the nationwide average.

However, AT&T believes the Commission's focus on nonpayment of charges for interstate long-distance calling as a primary factor in disconnection of customers from the network is misplaced. There is no persuasive evidence that customers' inability to pay interstate long distance charges -- as opposed to the combination of charges for local basic service, local features, local toll calling and in-state long-distance calling -- accounts for disconnection of customers' telephones to a significant extent. Hence, any action that addresses only this one component of customer charges is likely to prove ineffective to stimulate subscribership.

With respect to the NPRM's specific proposals, AT&T supports the offering of low cost, voluntary toll restriction

services, assuming the LECs have the technical capability to provide such an option. AT&T also supports the Commission's initiatives to expand assistance through the "Link Up" and "Lifeline" assistance programs. Carefully targeted assistance to customers based on financial need should result in increased subscribership, particularly in areas or by groups who are currently below the 94 percent nationwide average.

However, AT&T cannot support federal restrictions on disconnection of local service for failure to pay interstate long distance charges. In its 1986 Billing and Collection Order, the Commission recognized that state regulatory authorities are better situated to address the issues involved with local cut-offs and it has since properly deferred to the states in this area. There is no basis to depart from this practice and superimpose federal rules on state regulation that has proven fully adequate.

AT&T also shows that the needs of low-income persons who are highly mobile can best be met by unfettered marketplace competition, which will generate products and services that meet the specialized needs of all consumers. AT&T also shows that wireless technology is making unique contributions to universal service by filling niches that traditional land-line technology cannot serve as effectively.

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## COMMENTS OF AT&T CORP.

Pursuant to Section 1.415 of the Commission's Rules, 47 C.F.R. § 1.415, AT&T Corp. ("AT&T") hereby comments on the Notice of Proposed Rulemaking in this proceeding which presents several initiatives aimed at increasing telephone subscribership.[1]

## INTRODUCTION

AT&T fully supports the Commission's initiative to build on the success of its universal service policies and make service still more readily available, particularly in areas and among groups who have not fully shared in the historic growth in subscribership. The NPRM cites several

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[1] Amendment of the Commission's Rules and Policies to Increase Subscribership and Usage of the Public Switched Network, CC Docket No. 95-115, Notice of Proposed Rulemaking, FCC No. 95-281, released July 20, 1995 ("NPRM").

recent studies which indicate that certain groups that have been receiving telephone service may be disconnecting from the network, primarily because of the "inability to control long distance usage."[2] To reduce the number of subscribers leaving the network, the NPRM proposes to require LECs to offer call control services that would block or restrict interstate calling;[3] to prohibit disconnection of local service for non-payment of interstate long distance charges,[4] and to increase "Link-Up" assistance to pay for installation charges and "Lifeline" assistance for line charges.[5]

AT&T shares the Commission's goal of encouraging increased subscribership and usage of the network, but is concerned that the Commission's focus on charges for interstate calling may be misplaced. The LEC-sponsored studies that the Commission references emphasize long distance charges as a factor in local cut-off, but all cite several other significant factors as well (including LEC optional features), and none distinguishes interstate from

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[2] Id., ¶ 10 and n.8.

[3] Id., ¶¶ 13-21.

[4] Id., ¶¶ 27-33.

[5] Id., ¶¶ 22-26, 34-36.

IXC charges, as the NPRM proposes to do.[6] There is no persuasive evidence that customers' inability to pay interstate long distance charges -- as opposed to the combination of charges for local basic service, local features, local toll calling and in-state long-distance calling -- accounts for disconnection of customers' telephones to a significant extent. Hence, the NPRM appears to overstate seriously the degree to which interstate long distance charges affect subscribership. Nevertheless, AT&T believes that certain ideas proposed in the NPRM may have a positive impact upon subscribership and should receive serious further review.

## ARGUMENT

### SUBSCRIBERSHIP SHOULD BE ENCOURAGED BY MAKING AVAILABLE VOLUNTARY CALL CONTROL SERVICES; BY ASSISTANCE TO CUSTOMERS BASED ON FINANCIAL NEED; AND BY MAXIMIZING CONSUMER CHOICE IN THE MARKETPLACE.

The Commission states that its objective is to employ market forces to "enhance subscribership levels in a

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6 Aside from the LEC's self-interest in pointing to IXC charges as a primary factor in local disconnection, certain of the studies may not be statistically valid because of their limited scope. For example, the Mueller and Schement study (NPRM, ¶ 10, n.8) bases certain of its conclusions on interviews with only 14 households in Camden, N.J.

cost effective manner."[7] AT&T believes this can best be achieved by focusing on proposals that maximize consumer choice and allow the free play of marketplace competition, as described below.

i. Call Control Services

The Commission's proposal for the LECs to offer voluntary call control services -- either blocking or restricting the volume of interstate long-distance calling from a particular number -- may provide a useful option for some customers if it is technically feasible.[8] As the NPRM (¶¶ 17-20) appears to recognize, such call control services would have to be performed in LEC switches so that calls of all IXCs could be captured and applied against the pre-set limit. No single IXC could effectively implement a limit on a customer's interstate calling because of the ease with which customers could "dial around" their primary

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7 NPRM, ¶ 6.

8 Allowing customers to select a pre-set calling limit could assist customers both in budgeting their own calling and in controlling use by others in the household who may have access to the telephone but are not responsible for payment. This may be particularly useful in encouraging subscribership in households with non-traditional living arrangements because an individual may subscribe to service without the concern that others in the household who may have access to the phone can incur charges beyond a pre-set limit.

interexchange carrier and exceed the pre-set limit using other carriers.

However, it is unclear whether any LECs currently have the technical capability to provide such a service. In order to impose a dollar limit on calling, LECs would have to apply the tariffed rates, discounts and billing options of all IXCs in their service areas to each call placed by a "restricted" customer. Determining a customer's balance on a real-time basis, as would be necessary for an effective dollar restriction, would be further complicated by the numerous discount plans offered by virtually all major IXCs, under which customers' bills are subject to various percentage reductions, based on calling volumes which cannot be determined until the end of the month. A minute-of-use restriction might be less difficult to develop, but it is likely to be far less useful to customers, whose main concern is the dollar amount of their bill, because per minute rates can vary greatly depending on factors such as the location called, the class of call and time of day.

As the NPRM (¶ 17) also observes, in order to be effective and useful to customers, a blocking service would have to block "only those interstate calls for which the subscriber would be charged," and would have to continue to allow customers access to collect calls, 800 calls, "911" and other special services.[9] Still further, the LEC would have to distinguish between interstate and intrastate long distance calls in determining when a calling limit is reached, and then disable only interstate calling. The capability of LECs to cost-effectively perform any of these functions is unclear and requires further study.

ii. Local Service Cut-off

Citing the apparent success of Pennsylvania and certain other states in maintaining subscribership levels, the NPRM also proposes to adopt rules prohibiting disconnection of local service for non-payment of jurisdictionally interstate long distance charges as a means of keeping subscribers on the network.[10] AT&T believes that additional federal rules on cut-off of local service are not advisable and that local cut-off should continue to be a matter of state regulation.

In its 1986 Billing and Collection Order, the Commission decided to "defer to state regulatory authorities with respect to the practice of local cut-offs".[11] The

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[9] Collect calling and third party billing data for calls billed to such customers would have to be collected and applied against the customer's calling limit to assure effectiveness of the call control service.

[10] NPRM, ¶¶ 10-12, 27-33.

[11] See Detariffing of Billing and Collection Services, F.C.C.2d 1150, 1165, 1176 (1986) ("Billing and Collection Order"), recon. denied 1 FCC Rcd. 445 (1986).

Commission agreed with the "consensus among virtually all categories of commenters" that the issues raised by this practice were better suited to state resolution, citing local considerations such as access to emergency services and the technical ability of individual LECs selectively to limit access to an IXC's network.[12] The Commission concluded that this approach "does not seem to have had any adverse effects from either a consumer or competitive standpoint," and declined to impose uniform national rules.[13]

Since the 1986 Billing and Collection Order, the states have adopted varying approaches to local cut-off and carriers have developed billing systems and established infrastructures to meet those varying requirements.[14] There

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12 Id. at 1165.

13 Id. at 1176. As the Billing and Collection Order explains, the issue of local cut-off arose in the first place because following the AT&T divestiture, two separate carriers rather than a single carrier provided local and interexchange services, respectively, to customers. Id. at 1152-1155. Prior to divestiture, "the local exchange carriers . . . were billing and collecting for their own offering when they billed end users for AT&T services." Id. at 1152. The Billing and Collection Order made clear that there was no barrier to local cut-off for nonpayment of interstate long distance charges where both local and long distance service were provided by the same carrier, and the Commission prohibited the states from adopting rules to deny local cutoff in such circumstances. Id. at 1176-1177, n.69.

14 The NPRM (¶ 11, n.12) lists only eleven states that currently have an outright prohibition against

(footnote continued on following page)

is every indication that state regulation is generally working well in balancing the needs of customers and carriers. AT&T believes that superimposing a federal rule that addresses only one component of customers' bills on top of these state regulations is inadvisable. The proposed rule would not significantly decrease disconnections from the network because, in AT&T's experience, customers are rarely disconnected solely for failure to pay long distance charges (much less only interstate long distance charges). Changing the existing practice would impose substantial costs on carriers, who would have to modify their billing systems to accommodate an interstate-only rule on top of the 50 different state regulations governing local cut-off, and who would likely experience a higher incidence of uncollectibles.[15] The other measures proposed in the NPRM as positive steps for increasing subscribership are far preferable and should be implemented before any federal regulation of local cut-off is considered.

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disconnection of local service for non-payment of long distance charges.

15 AT&T estimates that its average rate of uncollectibles in states that prohibit local cut-off for non-payment of long distance charges is approximately 30 per cent higher than in states which allow local cut-off.

iii. Link-Up and Lifeline Assistance

The Commission's proposals for expanding the "Link-Up" and "Lifeline" assistance plans are positive, targeted steps that appear likely to encourage increased subscribership. With respect to Link-Up, the NPRM correctly observes that assistance in paying connection charges does not, of itself, assure a net increase in subscribership.[16] It is essential that the program be targeted to households that want to be connected to the network but lack the financial means to do so. Hence, Link-Up should continue to utilize a means test and be targeted to those who would connect (or reconnect) to the network, "but for" their inability to pay installation costs.

As the NPRM (¶ 24) also correctly notes, there will be no net increase in subscribership if after reconnection, Link-Up customers are again disconnected for failure to pay their bills. Hence, Link-Up customers should be encouraged to subscribe to a call control service in connection with receiving Link-Up assistance.

The NPRM (¶ 25) also observes that deposits may be an obstacle for initiating service, particularly for customers with a poor payment history, and proposes to require carriers to adjust deposit requirements for low

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[16] NPRM, ¶ 24.

income customers who subscribe to a toll restriction service. AT&T agrees that deposits should be adjusted for customers with toll restrictions, but does not believe that any new rules are required. The amount of deposit requested by a carrier is a function of the financial risk that a particular customer entails. If a customer's potential charges are capped, as with toll restrictions, the financial risk is necessarily lower than if no limit applied and business judgment will dictate that a deposit be reduced accordingly. Indeed, this result occurs by operation of many carriers' existing tariffs, which specify that a deposit will be required only if a customer has no credit history or is not creditworthy, and which set the amount of the deposit at some multiple of estimated monthly charges.[17]

The NPRM (¶ 36) seeks comment on ways to modify the Lifeline program to increase subscribership and on whether the Lifeline program should be extended to certain

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[17] See, e.g., AT&T Tariff F.C.C. No. 1, Section 2.5.6, setting the deposit amount for LDMTS at "three times the estimated average monthly usage charges and/or the monthly recurring charges."

As the NPRM (¶ 26) also suggests, any relief from deposit requirements based on the fact that a customer has subscribed to a call blocking service could only apply so long as the customer continued to subscribe to that service. If the blocking service were discontinued, the carrier would have to be allowed to adjust the deposit accordingly to reflect any increased financial risk.

multi-line entities such as schools and libraries. With respect to service to low income consumers generally, AT&T believes the operation of the competitive marketplace is the best means for ensuring that these customers receive service and that service is reasonably priced. For its part, AT&T has proposed a "safety net" for low income customers that would utilize the same means test that is used by local exchange carriers for their Lifeline and Link-Up programs.[18] Under AT&T's plan, qualifying consumers could select a special, reduced rate plan for a specified volume of usage each month, with rates frozen until 1998. AT&T has also proposed a second plan for low volume consumers, regardless of income, which provides a specified volume of usage at reduced rates, with specified monthly fees and rates set through 1998.

However, AT&T is opposed to any general extension of the Lifeline program to include considerations other than financial need. In adopting the Joint Board's recommendation to establish the Lifeline program, the Commission repeatedly emphasized that its purpose was to "promote telephone subscribership among low income

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[18] See Letter of Alex Mandl, Executive Vice President, AT&T, to Reed E. Hundt, Chairman, FCC, dated October 4, 1994.

groups."[19] Extension of the Lifeline program to consider other factors would depart from this essential purpose and extend subsidies to programs which should be explicitly funded -- or not -- based upon their own merits. For this same reason AT&T believes that Lifeline assistance is not the appropriate vehicle to fund improvements in service to certain "multi-line entities" such as schools and libraries. While that goal is undeniably salutary, the legal and policy issues presented by that initiative differ sharply from those of the Lifeline program, which was intended as a vehicle to promote universal service by helping pay for basic telephone service for those who could not otherwise afford it.[20]

iv. Services Targeted For Low Income Populations That Are Highly Mobile

The NPRM (¶ 37) observes that low-income persons who are in short-term, impermanent living arrangements are less likely to be telephone subscribers, and seeks comment on how the marketplace can make service available to this group. AT&T believes that the needs of such persons can best be met by unfettered marketplace competition which will

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[19] MTS and WATS Market Structure; Amendment of Part 67 of the Commission's Rules and Establishment of a Joint Board, 51 Fed. Reg. 1371, ¶¶ 1, 3, 8, 10 (1985).

[20] See id. at ¶¶ 1, 3, 8, 10.

create products and services to meet the needs of all consumers. Indeed, several currently available services are already beginning to meet the telecommunications needs of these and other groups of uniquely situated users.

For example, prepaid telephone cards, which were almost unknown in the United States barely two years ago, have grown enormously in popularity and have become a common means for calling while in transit.[21] One publication notes that, "the cards are now proving particularly popular with prisoners, soldiers, college students, immigrants" and others without telephones.[22] Another publication observes that prepaid cards are particularly suited to meet the needs of "a person who does not have his own home or is in transition from one home to another."[23] The prepaid card business, estimated at only $75 million in 1993,[24] is projected to grow to over one billion dollars (and by some estimates as high as three billion dollars) by the end of

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21 See Baltimore Sun, Phone Card Catches on With Callers, p. 16C, February 18, 1995.

22 Id.

23 Triangle Business Journal, Plastic Cards Edging Their Way Into LD Arena, p. 26, January 20, 1995.

24 The [Norfolk] Virginian Pilot, 7-Elevens Will Sell Phone Cards, p. A1, November 15, 1994.

1996.[25] Further, competitive public payphone service is now authorized in virtually every state and has resulted in the widespread placement of pay phones in all manner of locations that are commonly used by people in transit -- airports, truck stops, convenience stores, highways -- providing ready access to telephone service. Hence, the competitive marketplace is already working to meet the telecommunications needs of this segment of the public and will provide still more innovative solutions as all carriers are allowed to compete on equal terms.

v. Wireless Technology and the Goal of Universal Service

The Commission also asks how wireless technology can now and in the future advance the goal of universal service and whether newer wireless technologies, particularly fixed cellular service, can reach unserved areas more economically.[26] Wireless services offered by Commercial Mobile Radio Service ("CMRS") licensees are used primarily as an adjunct to traditional wired local exchange services and do not compete directly with such services.

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[25] Id. See Fairfield County Business Journal, DCI Communications Takes To The High Seas, Sec. 1, p. 5, March 6, 1995 ($1 billion by year-end 1995); Rocky Mountain News, Talk Cheaper With Pre-Paid Phone Card, p. 32A, June 19, 1995 (more than $1 billion in 1996).

[26] NPRM ¶¶ 2, 5, 40-41.

However, the flexibility and mobility of wireless technology provides a new dimension to traditional concepts of universal service.

One important aspect of universal service is the ability to communicate in times of emergency or disaster. Just as land-line telephones have long been used to summon police, fire or medical assistance in emergencies, wireless services now allow users to summon assistance more efficiently, from virtually anywhere, while on the move.[27] Wireless in general, and cellular services in particular, are also being used extensively in times of disaster, often providing the only means of communications to the public for extended periods of time while landline services are being repaired.[28] Wireless services also have the potential to

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27 See, e.g., Business Wire, Motorists Go Safely With Cellular Phones, September 11, 1995. In addition to emulating the emergency 911 dialing convention, customers of AT&T Wireless Services can access 911 without charge from their wireless telephones. See PR Newswire, McCaw's Cellular One Northeast Region Becomes AT&T Wireless Services - Heralds New Era in Wireless Communications, August 28, 1995.

28 Recent natural calamities such as earthquakes in Los Angeles and San Francisco, and Hurricanes Hugo, Andrew, Luis and Marilyn have demonstrated this application of wireless technology. See The Washington Post, On St. Thomas, A Paradise is Whisked Away; Hurricane Death Toll Reaches 8; Officials Say One Quarter of Houses Are Destroyed, p. A1, September 18, 1995; Los Angeles Times, Hurricane Luis Cuffs U.S. Islands With Gales, Drenching Rain, Part A, p. 15, September 7, 1995. Organizations such as the Red Cross and the National Guard have made extensive use of cellular services during these kinds of

extend local exchange service to unserved areas. For example, cellular services have been used by subscribers on an interim basis where local wired telephone service did not exist or where the waiting period for installation was too long.[29]

With respect to fixed cellular service, AT&T's experience is limited largely to emergency use devices that are employed where wired phone services are not available or practical. For example, many cities, counties, and states are utilizing fixed cellular for emergency roadside call boxes -- self-contained, solar powered cellular phones stationed at intervals along roadways to allow callers access to emergency services.[30] Callers usually can place calls only to the designated emergency number (e.g., 911) and are not charged for calls.[31] While in a very limited

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emergencies, coordinating rescue and relief efforts. See PR Newswire, McCaw and AT&T Join American National Red Cross In Disaster Services Partnership, May 22, 1994.

[29] See, e.g., The Denver Post, U S West May OK Vouchers to Deal With Service Held Woes, P.C. 01, January 28, 1995; Rocky Mountain News, U S West Cellular Service Remedy Gets OK, p. 55A, May 11, 1995; Omaha World Herald, Arizona Passes Phone Service Rules, p. 8M, July 9, 1995.

[30] See e.g., Sacramento Bee, Area's State Highways Get Emergency Phones, p. N2, March 31, 1994.

[31] Similar use is made of fixed cellular in several national parks where millions of acres of land are accessible to

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sense, these applications can be viewed as surrogates for local loops, they are unique in that they are used almost exclusively in emergency situations and in remote locations.

Apart from these unique cases, current cellular technologies do not have the capacity to replace traditional wired local exchange services. AT&T continues to devote resources to developing more advanced wireless applications based on the cellular model of low-power, frequency re-use applications. How these emerging technologies might be used to expand service to currently unserved areas is still uncertain.

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the public, but are not served by wired telephone service, to provide emergency service to visitors.

## CONCLUSION

For the reasons stated above, the Commission should further review the proposals in the NPRM to make available voluntary call blocking services and carefully targeted assistance to customers based on financial need and propose, for further comment, specific rules to implement those proposals.

Respectfully submitted,

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